MARKET ANALYSIS OF SECURITIES OF REITS AND REAL ESTATE COMPANIES

Audit's Realty Stock Review

April 10, 1987 (Priced April 7)

VOL. XVIII, NO. 7

MARKET STRATEGY: IT MAY NOT BE TOO LATE TO PLAY HOMEBUILDER STOCKS -- WITH CARE

We continue this issue to look for values in homebuilder stocks, still 1987's hottest housing stock group. Thru this issue, builder stocks were still ahead by about 35%, or about 10% better than the sizzling Dow-Jones Industrials.

Recent strength comes in face of last week's first prime rate boost in three years, a 0.25% bump to 7.75%. Coupled with trade moves against Japan and a sagging dollar, the news first sent the Dow-Jones Industrials into a 57-point loss, followed three days later by a 70-point gain, biggest single-day gain ever. On Tuesday this week, the market slumped sharply again, off 44.60 points just after closing over 2,400.

As the table on page 6 shows, homebuilder stocks have been standouts among realty stocks, while other realty stock groups have lagged the overall market. Last issue we focused upon four majors, including three which have grown rapidly thru recent acquisitions.

This issue we focus upon overlooked or lagging issues which may have merit at this market juncture. Examples:

--**Newhall Land & Farming Co.**, one of the first developers to convert to MLP format (RSR, 7/27/84), has been flattish recently despite a superior land position northwest of Los Angeles.

--**M.D.C. Holdings** has fallen from favor because it has has agreed to be part of a group trying to rescue troubled Western Union;

--**U.S. Home Corp.** has shown good progress since it restructured last summer (RSR, July 11), and **General Homes** still hurts from weak Houston markets;

--**Oriole Home Corp.** and **Writer Corp.** are smaller, more local builders whose shares have been less in demand;

--Market newcomers have enjoyed some phenomenal success as **Toll Brothers, Calton Inc.** and **Kaufman & Broad Home Corp.** have risen sharply on local market strength in N.J. and Calif.

While the recent prime rate bump has given pause to some builder stocks, it likely will boost new house sales in the short- to medium-term as buyers become more aggressive in hopes of beating any rate increase that may lie ahead.

For the longer term, we continue to see stable to moderately lower rates ahead because the economy still has not built up a head of steam and the 1986 Tax Reform Act makes borrowing slightly less attractive. Positions should be taken with one eye watching the bond and dollar markets. With that caveat, we review some attractive situations.

NOW AVAILABLE: Our revised brochure describing our money management services.

KENNETH D. CAMPBELL, PRESIDENT/FAYE KREISMAN, STATISTICS/AUDIT INVESTMENTS, INC., 136 SUMMIT AVENUE, MONTVALE, NJ 07645

PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS; SUBSCRIPTION $264 ANNUALLY/GROUP RATES ON REQUEST

HOMEBUILDER STOCKS: HOW THEY STAND COMPARED TO TRADING IN THE PAST YEAR

A good way to look at these stocks is to compare current prices with their 52-week trading range. This method sorts out stocks which have risen faster than the group, and also those which haven't shared in the group's rise. The table below shows 52-week trading range for representative builders and two measures of stock performance based on latest prices:

--Percentage below their highs -- a measure of how far stocks have fallen;

--Percentage above their lows -- a measure of how much they've advanced.

	---52-weeks-- High-Low-Last	---% to--- High	Low
Calton..	$15.38- 4.63-12.75	-17%	+176%
Gen.Dev.	26.63-14.13-23.00	-14	+ 63
Gen.Home	15.25- 6.63- 9.00	-41	+ 36
Hovnan'n	38.50-15.00-33.25	-14	+122
K&B Home	21.00- 9.00-18.63	-11	+107
Leis.Tch.	9.13- 4.38- 8.25	-10	+ 89
Lennar..	35.38-14.00-33.88	- 4	+142
MDC Hld.	21.88-12.88-14.75	-33	+ 15
NVHomes.	43.50- 9.00-39.13	-10	+335
Newhall.	43.75-30.88-35.75	-18	+ 16
Oriole A	11.75- 6.13- 8.75	-26	+ 43
Pulte Hm	22.25-10.50-14.38	-35	+ 37
Ryland..	33.00-15.00-30.00	-10	+100
Std.Pac.	34.75-24.00-30.88	-11	+ 29
Toll Bro.	33.00- 6.00-26.75	-19	+346
UDC-Univ.	27.13-17.25-25.25	- 7	+ 46
U.S.Home	9.00- 4.13- 7.63	-15	+ 85
Writer..	11.38- 5.75- 7.13	-37	+ 24

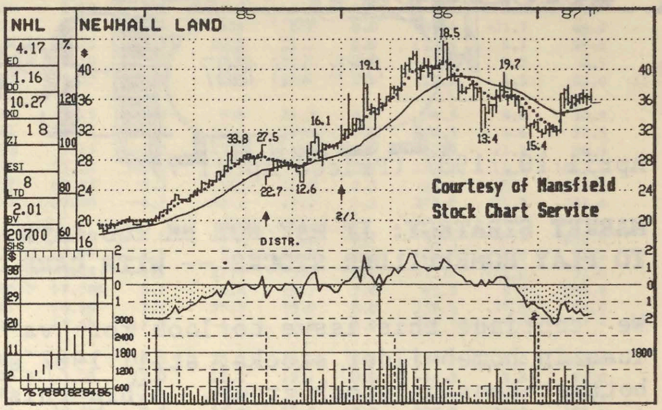
The five biggest decliners from their highs, and laggards from their lows, are:

% Below Highs		% Above Lows	
Gen.Homes.....	-41%	MDC Holding..	+15%
Writer Corp...	-37%	Newhall Land.	+16%
Pulte Home....	-35%	Writer Corp..	+24%
MDC Holding...	-33%	Std. Pacific.	+29%
Oriole Home...	-26%	Gen'l. Home..	+36%

Pulte Home was reviewed in the Mar. 27 issue. Others on these laggard lists are reviewed this issue.

ASSET PLAYS: NEWHALL LAND STILL A VALUE ON VALENCIA NEW TOWN ACTIVITY PICKUP

Two years after **Newhall Land & Farming Co.** became the first realty developer to convert to MLP format, NHL stock has stalled a bit after enjoying a prolonged run (see chart). We are increasing NHL to A Rank.



EPS/Dividends - A: NHL earned $2.20 per unit in 1986, up 6%. On a fully comparable basis (i.e., pretax during years when NHL was a taxpaying corporation), NHL EPS have risen at about 34.6% annually the past five years. Because NHL is a MLP, taxable income differs from publicly reported income and averaged $1.18/sh. in 1986, although the amount varies with the length of time each investor held shares. NHL paid 84¢ unit distributions in 1986, up 14%.

Assets and Operations: NHL is developing the new community of Valencia about 30 miles north of Los Angeles on land it's owned for nearly a century. NHL began developing Valencia, in the Santa Clarita Valley north of the San Fernando Valley, about 20 years ago and initial progress was slow. In recent years population pressure north from the Los Angeles metro area has accelerated growth and the valley's 90,000 present population is predicted to more than double to 200,000 by 2000. As the valley's major landowner, NHL is seeking planning approval to double Valencia's size to 10,000 acres (only 8% of NHL's 123,000 acres) and permit building an additional 12,000 homes plus commercial sites. Valencia population is now over 20,000 with 7,400 DU built and sold. Present growth-related community issues include possible incorporation and funding of school growth.

As a community developer, NHL derives a substantial portion of operating profits from land sales, including bulk sales of commercial and residential

Unit contribution from these acquired units isn't shown but we estimate Wood Bros. added about 1,800-1,900 DU and Ponderosa a small amount. Ponderosa may contribute about 1,000 units in 1987 and volume should top 6,000 units. In 1986 MDC derived 41% of volume from Colorado (where deliveries rose 42% mainly on the Wood Bros. acquisition); 33% in Ariz., Cal. and Texas; and 26% in Fla. and the D.C. area. Average house price was $111,575. Backlog at year-end of 1,609 homes had a $192.8 mil. value.

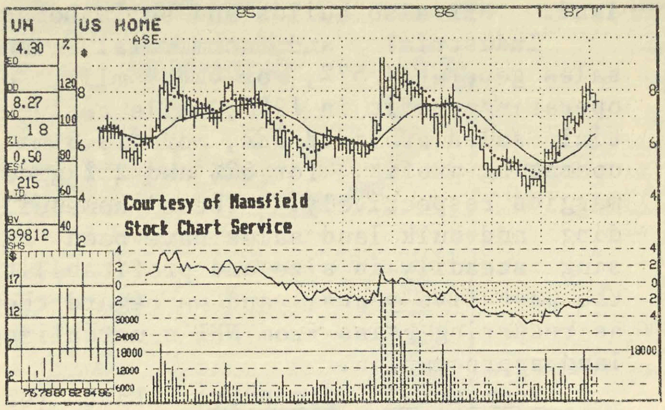
Land sales, a point of criticism, rose 15% to $93 mil. in 1986 but gross margins narrowed to 22% and land provided 19% of operating gross profits. MDC sold surplus Wood Bros. land in Houston and Ariz. during 1986, and also sold 5,900 undeveloped homesites for $38 mil. to a venture in which Silverado S&L, privately owned Color. S&L is a partner. Long-term, land sales should decline in importance.

Financial Measures - A: By raising new capital last year, MDC raised total debt to $869 mil. or 4.0 times equity of $218.9 mil. or $11.05/sh. ($193.7 mil. or $9.78 sh. after deducting unamortized financing costs. Management owns about 25% of shs. and told a recent conference it was looking for ways to restructure to reflect underlying values better. Liquidity is good with $11.39/sh. cash and marketable securities.

Exposure - A: Management here is quite aggressive, both in raising new capital and in making acquisitions. In addition to the proposed Western Union investment, MDC has bought 7.7% of Vicorp Restaurants and a block of Public Service of Colorado. Long term record in acquisitions has been good, along with internal growth, and with shs. selling at less than 30% over available cash, seem a good recovery candidate.

NEWS REVIEWS: U.S. HOME RESTRUCTURING PAYS OFF; GEN. HOMES SHAKING TEXAS IMAGE

U.S. Home Corp. expects to report its third straight profitable quarter in a few days since it restructured last summer to purge losing operations, mainly in Texas (RSR, July 11, '86). We regard the move as very positive but are retaining our C Ranking for now.



EPS/Dividends - C: The year 1986 was a study in contrast: UH lost $1.80 in the first half, including the restructuring, then earned 20¢ after an 8¢ loss on discontinued mobile home lines, in the second half. Full year loss of $2.05/sh. included 58¢ loss on discontinued lines. The writeoffs had negligible cash flow impact and second half cash flow was positive. Dividends were discontinued in 1985.

Assets and Operations: UH delivered 8,393 DU in 1986, down 4.6% with declines in all geographic markets except the northeast, where deliveries rose 10%. Year-end backlog of 1,840 units was down 4.5% with Texas off 58%. UH has discontinued operations in New Orleans and reoriented production from condos to single-families in tough Dallas and Denver. Texas was 22% of sales but only 9% of year-end backlog.

UH will continue to operate in many growth markets, including Florida and New Jersey, its historic strong markets. UH is increasing penetration in Calif. and opened tracts in San Diego, Ontario and Fresno in 1986 (adding to three other sites). In 1987 UH will open in Greensboro, N.C. and Nashville. UH is actively pressing joint ventures with financial institutions as a way of holding or financing land without balance sheet effect. Joint ventures include a 1,100-DU, $140 mil. retirement community in Dover Twp., N.J.; Maravilla community in San Diego; and several Fla. tracts.

Financial Measures - C: Total debt of $411.2 mil. is about 1.9 times $220.9 mil. shareholders' equity following the writeoffs, equal to $5.55/sh. About $153 mil. is long-term debt while the remaining $257 mil. is short-term. UH

land. NHL also builds and sells homes.

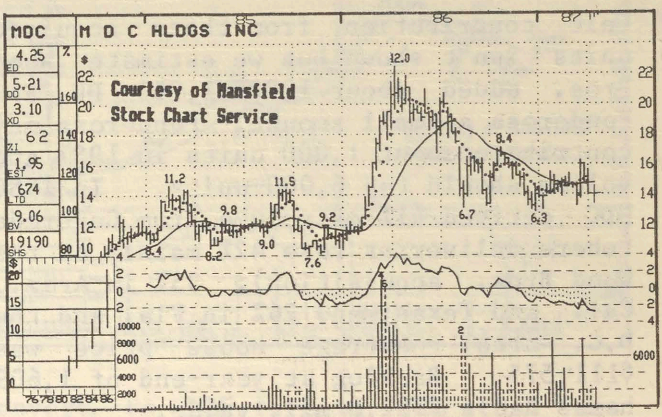
Industrial and commercial land sales generated 57%, or $28.9 mil., of operating profit in 1986, while residential sales provided 38%, or $19.3 mil. operating profit, for 62% and 25% gross margins respectively. These homebuilding and bulk land sales have been rising steadily in size and profitability the past five years, and we regard them as recurring gains from NHL's unrealized land appreciation.

Commercial property: Last year NHL's $46.7 mil. commercial sales included 52.5 acres of industrial land at Valencia for $17.1 mil. or $7.50 sq. ft.; 25.8 acres of commercial land (including a new Valencia Auto Center) for $10.1 mil. or $7.65-$10.50/SF; and bulk sales of 143 residential acres at Valencia and Cowell Ranch near Walnut Creek for $11.2 mil. or $1.80/SF. Sales of 41 additional acres at Valencia were in escrow at year-end for $14.1 mil. or $7 to $10.33/SF. After spinning off early commercial properties into Newhall Investment Properties, NHL is rebuilding its income property holdings and in March opened 256,000 SF River Oaks shopping center to add to 150,000 SF Bouquet Center. Two apartments with 368 DU are 100% occupied.

In homebuilding, NHL delivered 517 homes, off 6% from a record, at an average $151,000. NHL is building in its prestigious Valencia Summit project plus condominiums in the Santa Fe project. Year end backlog was 232 DU in escrow plus 63 under deposit.

Farming: NHL is a major farmer growing 22 different row, vine and tree crops on 46,000 acres, plus cattle ranching on 60,000 acres. Agriculture is capital intensive (about 15% of total assets) and prices are erratic in some crops, producing low margins. But farming hasn't lost money the past five years and is a good way to hold land.

Financial Measures - A: Debt of $70.8 mil. is a low 0.16 times tax-basis equity of $448.5 mil. or $21.67/unit. Equity at historic cost is $134.2 mil. or $6.48/unit. The land value was written up to stock market value in Jan. 1985 as part of the MLP conversion. Debt includes $57.5 mil. 6.75% debentures convertible at $44 into 1.3 mil.



units (or a 6% expansion of shares).

Current value: NHL says appraised value of Valencia rose 20% in 1986 and puts appraised value of all real property at $565 mil., or about $25.75/unit over the $6.48 historic cost, or about $32.25/unit. That amount excludes all other assets, including $90.2 mil. cash and marketable securities, or $4.36/sh.

Exposure - B: Longer-term values are sound and total activity at Valencia is accelerating. Risk is that building-/zoning approvals could be delayed (e.g., thru incorporation of Valencia) or Los Angeles growth could slow.

RANKING REVIEW: MDC HOLDINGS DILUTES HOMEBUILDING IMAGE WITH OFF-BEAT DEALS

So many investors have dumped on **MDC Holdings** stock (see chart above) that the stock is now a real contrarian play. MDC, a Denver based homebuilder, began falling a year ago, just before it raised $440 mil. in 11.25% senior subordinated notes. Since then MDC has raised lots of investor eyebrows by investing in non-homebuilding assets (see below), including the controversial commitment to invest $50 mil. into rescue attempts at Western Union Corp. We are holding A Rank.

EPS/Dividends - A: MDC netted $1.80/sh. fully diluted in 1986, up 3% and fifth consecutive up-year. Dividends declared of 37¢ rose 9%. We see flat EPS for 1987 but lower land sales should upgrade EPS quality.

Assets and Operations: MDC closed 5,081 home sales in 1986, up 114% including sales from Wood Bros. and Ponderosa Homes of southern Calif., both acquired under purchase accounting during 1986.

signed a new $222.3 mil. revolving credit with 18 banks in Mar.

Exposure - B: UH now stresses profitability of sales, not market share or unit volume, and asset turnover. Speculative commitments are attractive.

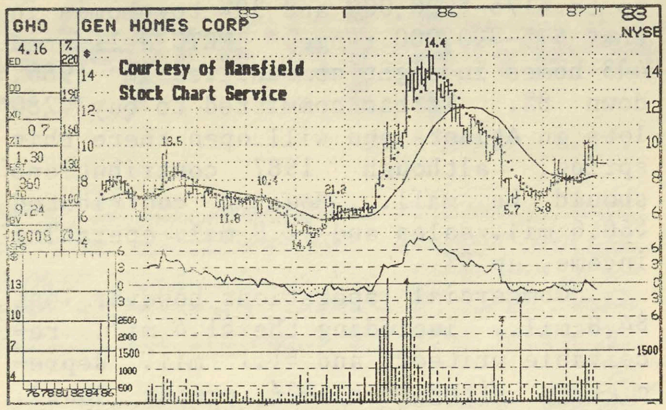
General Homes Corp., major Houston based merchant homebuilder, holds C Rank. GHO is diversifying outside Houston, reflected in recent share price action.

EPS/Dividends - C: GHO earned $1.17/sh. in its Sept. 1986 fiscal year, up 255% to continue a pattern of EPS volatility. The Dec. qtr. lost 5¢, vs. 12¢ profit. No dividends are paid.

Operations: GHO closed sales of 5,407 homes in 1986, up 25%. But the Dec. qtr. was weak with a 25% drop in deliveries to 817 units. Average 1986 sale price of $81,795 rose 9%, attributed to emphasis upon building larger homes to reduce reliance upon first-time buyers. Sales contracts in backlog fell 38% at Dec. 1986 to 708 DU, because GHO chose not to meet aggressive discounting by some competitors.

GHO has expanded beyond its Houston base (where housing markets are very soft) and derived only 26% of closings (1,422 homes) from Houston in 1986, down 14% in units and now 26% of volume, vs. 38%. Dallas continued to grow as GHO's second biggest market, deliveries rising 35% to 1,835 constituting 34% of sales, vs. 31.5%. Texas thus accounts for about 60% of volume. GHO is Houston's largest builder with 15% market share, and is No. 3 in Dallas with a 7% market share. Phoenix is GHO's third largest market (17% of deliveries, vs. 12.6%), making GHO the largest builder there. Other significant markets are Tampa and Orlando, with about 10% of total sales each and giving GHO No. 2 market share in each city.

GHO buys both finished lots and raw land for development, aiming to hold a 2-3 yr. land supply. At year-end it owned 6,117 finished lots (41% in Houston and 26% in Dallas); had 1,607 owned lots under development (47% Houston, 17% Phoenix, 25% Fla.); and owned 4,611 acres in active and future subdivisions (89% Houston). Improved lots are carried at $130.2 mil. and land and development costs at $160.1 mil., both down



slightly from 1985 and the $290 mil. land total about 51% of assets.

Financial Measures - C: Debt of $343.1 mil. at Dec. 1986 is 2.2 times $155.5 mil. equity (or $10.36/sh.). Debt includes $150 mil. subordinated debt at average 13.7%, and $193 mil. revolving debt and notes. About 79.8% of GHO stock is owned by American S&L, Miami (43.4%), and two senior company executives (36.4%).

Exposure - C: GHO's diversification beyond Houston seems to be working out; however U.S. Home's large 1986 writeoffs of its Houston land causes concern about GHO's still-large land position there.

RANKING REVIEWS: TWO SMALLER BUILDERS WELL POSITIONED FOR RECOVERY ROLES

Writer Corp. holds B Rank in a long delayed review, reflecting its location in slow Denver. But the Denver housing market will turn sooner, rather than later we think, and this should direct market attention to WRTC's sound fundamentals. WRTC is also expanding to Atlanta to lessen market risk.

EPS/Dividends - B: WRTC lost 24¢ sh. in 1986, first loss in many years, with about 14¢ after-tax loss attributed to receivable writeoffs and other operating costs at the Riverfront Festival Center in Littleton. WRTC paid 15¢ dividend in 1986; '87 payout is unclear.

Assets and Operations: WRTC is a conservative homebuilder with good land positions in Denver which is taking its lumps from a decision to enter mixed-use development several years ago. In homebuilding, WRTC has long held a good reputation in move-up homes and is now beginning to build starter homes. Sales

mix is about 70% detached homes, ranging up to $175-$200,000 and 30% townhomes in the $75-$90,000 range. WRTC delivered 443 homes in eight communities in 1986, down 8%. It has committed to buy 280 lots in Atlanta and will open there this spring, although 1987 contributions should be small. Housing contributed $60.6 mil. sales and $2.8 mil. operating income, up 9%.

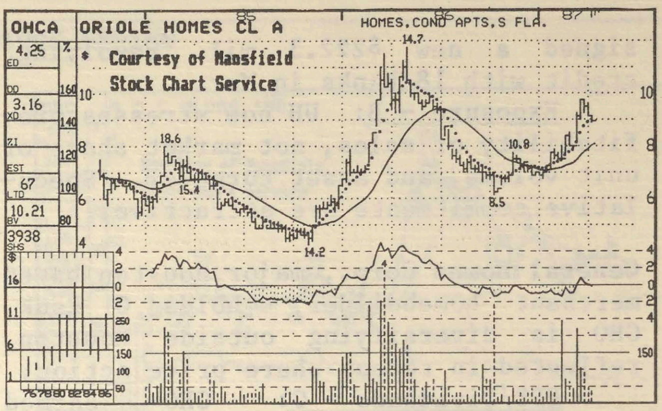
Commercial operations however lost $4.8 mil., including the $1.4 mil. receivable writeoff and $1.1 mil. depreciation (together 62¢ pretax loss). WRTC's first project, Writer Square in downtown Denver (115,000 SF office, 51,000 SF upscale retail), was modestly cash flow positive, with commercial rents offsetting a 24% fall in office rents. WRTC was hurt most when a tenant had to be replaced at Riverfront Center, a downtown Littleton project of 190,000 SF (140,000 SF retail); Castleton's will occupy a key space there this spring to boost retail occupancy to 70%. In south Denver, Willow Creek Center's first phase of 150,000 SF retail is about breakeven.

Financial Measures - B: Debt of $109.6 mil. is 3.1 times $34.9 mil. equity, or $8.47/sh. About 43% of debt is secured by commercial properties.

Exposure - C: When Denver's markets turn, WRTC is well positioned to profit.

Oriole Homes Corp. holds C Rank. A smaller builder in Florida's Gold Coast, OHC has straightened out several problems which caused EPS volatility.

EPS/Dividends - C: OHC netted 67¢ per combined Class A and B shs. in 1986, up 14% from operations in 1985 before a 17¢ litigation loss. OHC paid 20¢ and



15¢ regular dividends on the B and A shs. plus a 10¢ special on both classes.

Assets and Operations: OHC builds condominiums and single-family units in 13 locations in Broward and Palm Beach counties north of Miami. OHC delivered 1,076 DU in 1986, up 25%, with 83% being condos and the rest singles. Year-end backlog rose 78% to 509 DU. OHC sells mainly to the senior citizens and active adults, with about 43% being cash sales. Major communities include Cypress Bend, with 456 DU in active development; Lakeshore with 573 units active; Huntington Lakes with 672 DU active; Logger' Run, 446 DU active; and Whisper Walk, 305 DU.

OHC's land position catches our eye and it holds $82.2 mil. actively developed land (61% of assets) plus another $5.5 mil. investment land.

Financial Measures - B: Debt of $63.8 mil. is 1.5 times equity of $42 mil. or $9.85/sh. net of intangibles.

Exposure - B: Gold Coast land positions are becoming more valuable, witness Lennar's acquisition of Development Corp. (RSR, Mar. 27). While market is competitive, OHC's land holdings make the shares valuable.

COMPARATIVE REALTY STOCK GROUP AVERAGE 04/07/87

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANNUAL DIV	EARN ANN	LAST PRICE	-% CHANGE FROM MAR 24	JAN 1	P/E RATIO	ANNUAL YIELD	% PR TO BK	RETURN ON BK	MARKET VAL(000)
1 PROPERTY REITS	48	6	54	6750	11.01	1.09	1.05	16.23	-0.3	5.4	15.5	6.7	47.4	9.5	6454.0
2 PROP & MTG COMB REITS	22	3	25	5600	12.73	1.27	0.92	14.39	-0.9	1.5	15.7	8.8	13.0	7.2	2090.6
3 MORTGAGE REITS	17	1	18	5423	14.46	1.70	1.42	15.81	-1.1	-1.9	11.1	10.8	9.4	9.8	1688.3
4 PARTICIPATING MTG REITS	12	0	12	8303	12.01	1.13	1.14	12.14	-0.8	-3.3	10.7	9.3	1.0	9.5	1417.3
5 MAJOR HOMEBUILDERS	9	4	13	16933	11.98	0.57	1.53	25.14	0.5	36.3	16.4	2.3	109.9	12.8	4582.1
6 OTHER BLDRS/DEVELOPERS	7	27	34	5965	5.20	0.19	0.34	10.28	-3.5	31.2	30.5	1.9	97.6	6.5	2301.1
7 INCOME PROP BLDR/OWNR	20	12	32	6884	11.46	0.78	0.80	17.77	-1.1	8.0	22.2	4.4	55.1	7.0	3957.8
8 MORTGAGE BANKER/FINANCE	13	4	17	13299	9.90	0.84	1.21	16.55	-2.9	11.9	13.6	5.1	67.2	12.3	5724.4
9 DIVERSFIED RLTY&HOLDING	12	6	18	18084	14.78	0.35	0.94	18.94	2.0	16.2	20.1	1.9	28.2	6.4	9449.3
10 RLTY SVCS/SYNDICATORS	1	5	6	8188	6.60	0.03	-0.35	9.33	-3.2	19.8	0.0	0.3	41.5	-5.3	411.9
11 MANUFACTURED HOUSING	4	5	9	12433	6.86	0.16	0.39	11.60	-5.7	15.4	29.8	1.3	69.2	5.7	1386.2
L LIQUIDATING COMPANIES	0	1	1	5968	1.37	0.00	-1.27	1.63	0.0	-38.1	NC	NC	18.6	NC	9.7
P PREFERRED STOCKS	1	0	1	1650	10.00	1.10	0.00	12.38	-1.0	2.1	NC	NC	23.8	NC	20.4
OVERALL AVERAGE			240	8645	10.72	0.82	0.90	15.52	-1.0	10.9	17.2	5.3	44.8	7.7	39493.1
DOW JONES INDUSTRIALS							115.59	2360.94	-0.3	24.5	20.4	2.8			
STANDARD & POOR'S 500							15.28	296.69	-1.6	22.5	19.4	3.0			
DOW JONES UTILITIES							14.01	208.72	-5.7	1.3	14.9	7.6			